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Nonresident Income Allocation Worksheet

587

PART I WITHHOLDING AGENT

Withholding agent's name

Withholding agent's address (number and street)

City

State

ZIP code

PART II NONRESIDENT VENDOR/PAYEE (Complete Part II through Part V and return this form to the above withholding agent)

Vendor/payee's name

Owner's full name if sole proprietor

Vendor/payee's address (number and street)

City

State

ZIP code

☐ FEIN☐ Social security number

Daytime telephone number

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Nonresident Vendor/Payee's Entity Type: (Check one)

- ☐ Individual/Sole Proprietor ☐ Corporation ☐ Partnership ☐ Limited Liability Company (LLC)
☐ Estate or Trust ☐ Tax Exempt (Withholding not required, skip to Part V)

PART III PAYMENT TYPE

Nonresident Vendor/Payee: (Check one)

- ☐ Performs services totally outside California (no withholding required, skip to Part V)
☐ Provides only goods or materials (no withholding required, skip to Part V)
☐ Provides goods and services in California (see allocation in Part IV)
☐ Provides services within and outside California (see allocation in Part IV)
☐ Other (Describe) _____

Note to vendor/payee: If you perform all the services within California, withholding is required on the entire payment for services unless you receive a waiver or reduced withholding authorization from the Franchise Tax Board (FTB). For more information, get FTB Pub. 1023, Nonresident Withholding – Independent Contractor, Rent and Royalty Guidelines.

PART IV INCOME ALLOCATION

Gross payments expected from the above withholding agent during the calendar year for:

(a) Within California (b) Outside California (c) Total Payments

1 Goods and Services:

Goods/materials (no withholding required)

Services (withholding required)

2 Rents on commercial or business property.**3 Royalties on natural resources****4 Prizes and other winnings****5 Other payments.****6 Total payments subject to withholding. Add column (a), line 1 through line 5 . . .**

\$1,500.00

Withholding threshold amount:

Note: If the amount on line 6, column (a) is \$1,500 or less, no withholding is required. If the amount on line 6, column (a) is greater than \$1,500, withholding at 7% is required on the entire amount on line 6, column (a). If the FTB reduced or waived withholding, attach a copy of the authorization from the FTB. See General Information E, Waivers and Reduced Rates.

PART V CERTIFICATION OF VENDOR/PAYEE

Under penalties of perjury, I certify that the information provided on this document is true and correct. If the reported facts change, I will promptly inform the withholding agent.

Authorized representative's signature

Title

Vendor/Payee's signature

Date

Daytime telephone number

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For Privacy Act Notice, see form FTB 1131 (Individuals Only).

Instructions for Form 587

Nonresident Income Allocation Worksheet

References in these instructions are to the California Revenue and Taxation Code (R&TC).

General Information

A Purpose

Use Form 587 to collect information to determine if withholding is required on payments to nonresidents. The vendor/payee should complete, sign and return Form 587 to the withholding agent. The withholding agent may then rely on the certification made by the vendor/payee to determine if withholding is required, provided the completed and signed Form 587 is accepted in good faith. The completed Form 587 should be retained by the withholding agent for record keeping purposes and be made available to the Franchise Tax Board (FTB) upon request.

Do not use Form 587 if:

- Payment to a nonresident is for the purchase of goods;
- You sold California real estate. Use Form 590-RE, Withholding Exemption Certificate for Real Estate Sales;
- The vendor/payee is a resident of California. Use Form 590, Withholding Exemption Certificate;
- The vendor/payee is a corporation that has a permanent place of business in California or is qualified to do business in California. Use Form 590;
- The vendor/payee is a partnership that has a permanent place of business in California. Use Form 590;
- The vendor/payee is a limited liability company (LLC) that has a permanent place of business in California. Use Form 590;
- The vendor/payee is a tax-exempt or nonprofit organization. Use Form 590;
- The vendor/payee is an irrevocable trust that has at least one California resident trustee. Use Form 590; or
- The payment is to an estate and the decedent was a California resident. Use Form 590.

B Law

R&TC Section 18662 and the related regulations require withholding of income or franchise tax on certain payments made to nonresidents of this state. The withholding rate is 7% unless a reduced rate or a waiver is approved by the FTB.

See General Information E, Waivers and Reduced Rates.

C When to File This Form

The withholding agent should request that the vendor/payee complete, sign and return Form 587 when a contract is entered into or before payment is made to the vendor/payee.

Form 587 will remain valid for the duration of the contract (or term of payments), provided there is no material change in the facts (as presented on Side 1).

The vendor/payee, by signing Form 587, agrees to promptly notify the withholding agent of any changes in the facts. The withholding agent should evaluate the need for a new Form 587 when a change in facts occurs, such as a change of address, location of service or property, amount of payment, etc.

D Withholding Requirements

Payments made to nonresident vendors/payees (including individuals, corporations, partnerships, LLCs, estates and trusts) are subject to withholding. However, no withholding is required if total payments of California source income to the vendor/payee during the calendar year are \$1,500 or less.

Qualifying payments include, but are not limited to:

- Payments for services performed in California;
- Rent paid to nonresidents if the payments are made in the course of the withholding agent's business;
- Royalties paid to nonresidents for the right to use natural resources located in California;
- Payments of prizes for contests entered in California;
- Distributions of California source income to nonresident beneficiaries from an estate or trust; and
- Other payments of California source income made to nonresidents.

Qualifying payments do not include payments:

- To a resident of California or to a corporation with a permanent place of business in California;
- To a corporation qualified to do business in California;
- For sale of goods;
- For income from intangible personal property, such as interest and dividends, unless the property has acquired a business situs in California;
- For services performed outside of California;
- To a vendor/payee that is a tax-exempt organization under either California or federal law;
- Representing wages paid to employees. Wage withholding is administered by the California Employment Development Department (EDD). For more information, contact your local EDD office; or
- To reimburse a vendor/payee for expenses relating to services performed in California if the reimbursement is separately accounted for and not subject to federal Form 1099 reporting. Corporate vendors/payees, for purposes of this exception, are treated as individual persons.

E Waivers and Reduced Rates

A nonresident vendor/payee may request that income taxes be withheld at a lower rate or waived. A waiver of withholding will generally be granted when a vendor/payee has a history of filing California returns and/or making estimated payments when due. To request a reduced rate or waiver, get Form 588, Nonresident Withholding Waiver Request. If the FTB has granted a waiver or reduced rate authorization, attach a copy of the FTB's authorization to this form.

F Requirement to File a California Tax Return

An executed certification that withholding is not required exempts the vendor from withholding but does not eliminate the requirement to file a California tax return and pay the tax due. For return filing requirements, see the instructions for Form 540NR, California Nonresident or Part-Year Resident Income Tax Return; Form 541, California Fiduciary Income Tax Return; Form 100, California Corporation Franchise or Income Tax Return; or Form 100S, California S Corporation Franchise or Income Tax Return.

Specific Instructions

Part I – Withholding Agent

Withholding agents must complete Part I before giving Form 587 to the vendors.

Part II – Nonresident Vendor/Payee

The vendor/payee must complete Part II. Complete all information including the FEIN or social security number and vendor/payee's entity type. Do not withhold if the vendor/payee is a tax-exempt entity. Check the tax-exempt box when the vendor/payee is:

- An entity that is exempt from tax under either California or federal law such as a church, nonprofit organization, or pension plan;
- An insurance company; or
- A federal, state or local government agency.

Tax-exempt vendors/payees do not need to complete Part III and Part IV, but must complete Part V.

Part III – Payment Type

The nonresident vendor/payee must check the box that identifies the type of payment being received.

No withholding is required when vendors/payees are residents, qualified corporations or have a permanent place of business in California.

Part IV – Income Allocation

Use the income allocation worksheet to identify payments that are subject to withholding. Only payments sourced within California are subject to withholding. Services performed in California are sourced in California. In the case of payments for services performed when part of the services are performed outside California, enter the amount paid for performing services within California in column (a). Enter the amount paid for performing services while outside California in column (b). Enter the total amount paid for services in column (c).

If the vendor/payee's trade, business or profession carried on in California is an integral part of a unitary business carried on within and outside California, the amounts included on line 1 through line 5 should be computed by applying the vendor/payee's California apportionment percentage (determined in accordance with the provisions of the Uniform Division of Income for Tax Purposes Act) to the payment amounts. For more information on apportionment, refer to California Schedule R, Apportionment and Allocation of Income.

Withholding agent. If the amount on line 6 is greater than \$1,500, the withholding agent must withhold on all payments made to the vendor/payee, until the entire amount on line 6 has been withheld upon. If circumstances change during the year (such as the total amounts of payments), which would change the amount on line 6, the vendor/payee must submit a new Form 587 to the withholding agent reflecting those changes.

If a reduced rate was authorized by the FTB, compute the withholding required by applying the authorized rate to the amount on line 6.

Part V – Certification of Vendor/Payee

Enter your name, title and daytime telephone number. Sign and date the form and return it to the withholding agent.

For more information, contact:

WITHHOLD-AT-SOURCE SECTION
FRANCHISE TAX BOARD
PO BOX 651
SACRAMENTO CA 95812-0651

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